International Journal of Management (IJM)
Volume 8, Issue 2, March – April 2017, pp.188–198, Article ID: IJM_08_02_020
Available online at
http://www.iaeme.com/ijm/issues.asp?JType=IJM&VType=8&IType=2
Journal Impact Factor (2016): 8.1920 (Calculated by GISI) www.jifactor.com
ISSN Print: 0976-6502 and ISSN Online: 0976-6510

A STUDY OF BRICS NATION BEING THE REAL GROWTH DRIVERS OF WORLD ECONOMY

Rashmi Mishra
Research Scholar, Lalit Narayan Mithila University,
Darbhanga, Bihar, India

Dr. S.P. Thakur
Professor (Retd.), University Prof of Commerce & Ex Dean of the Faculty of Commerce,
Lalit Narayan Mithila University, Darbhanga, Bihar, India

ABSTRACT

The BRICS have in the past decade shaken the world economy with their remarkable growth. Their share in the world GDP grew from 11 percent in 1990 to 25 percent in 2011. However, much of this success could be attributed to China and India. While China indulged in investment based growth model, India was reaping the benefits of its economic liberalization. Meanwhile Russia earned from the energy needs that China's growth had created and Brazil attacked its own macroeconomic woes for a faster growth. South Africa, however, sneaked into the group and has been the one most lagging behind. The question which this report attempts to address is whether these nations are still the growth drivers of the world. There are several factors which suggest that even though these economies might continue to grow they cannot recreate the magic with their remarkable growth in 2000s. That period saw an unprecedented growth partly because of the surge in the growth of these countries owing to reasons inherent to their economies and partly due to the sluggish growth of the richer economies. That was the period when they witnessed the major sub-prime crisis of which the BRICS, to some extent, were shielded. The room to catch-up is now low. The challenges which each of the BRICS is facing have been used to suggest that their ruling period appears to have ended unless they revisit their strategies. Instead the N11 have emerged as the next set of potential economies though they too cannot be expected to replicate what BRICS achieved from 1999 to 2011.

Key words: BRICS, GDP, Role of BRICS, BRICS contribution to world economy, Intra-BRICS trade

Cite this Article: Rashmi Mishra and Dr. S.P. Thakur, A Study of BRICS Nation being the Real Growth Drivers of World Economy. *International Journal of Management*, 8 (2), 2017, pp. 188–198.
http://www.iaeme.com/IJM/issues.asp?JType=IJM&VType=8&IType=2

1. INTRODUCTION

When a championed cricketer falls short of his best play, it takes a while to judge whether he has slowed down temporarily or has he permanently lost the sheen. The same stands true for the BRICS nations that had been performing no less than a champion cricketer who, singlehandedly, drives his entire team towards victory. The same way BRICS once led a global boom and helped revive the world economy forwards in the face of the financial crisis but have now slowed drastically. The BRIC countries together made the world economic output rise from 16 percent to 22 percent, from 2000 to 2008 to about 25 percent in 2011. Combined they accounted for 30 percent of the increase in the global output during this period. But what is now to be determined is whether these nations no longer have the caliber to produce the same startling results or is it just a matter of time before they get back their old charm. South Africa joined in 2011 and the acronym became BRICS. The role each member was expected to play at the time of its formations was: Table 1 Member Role China Global exporter of manufactured goods India Significant exporter of services Russia & Brazil Exporter of raw materials China should be happy if it manages to reach its official target of 7.5 percent growth in 2013, way off from the double-digit rates that the country had come to expect in 2000s. Growth in India too looming around 5 percent and Brazil and Russia struggling at 2.5 percent, barely half of what they witnessed during the boom. Collectively, they may just manage to meet previous year's pace of 5 percent. This appears faster than the sluggish rich countries, but it is the slowest emerging-economy growth in a decade. This certainly marks the end of the dramatic and steep growth phase of the emerging economies which witnessed economies climbing from 38 percent of the world output to 50 percent over the past decade. However, over the next decade, these economies shall continue rising but more gradually and subtly and the immediate effect of this slowdown should be manageable though the long term effect would be more strongly felt.

1.1. Birth of BRICS

There cannot be a single factor that can be attributed to the coming together of these nations. Several factors were at play in each of these nations which led to their remarkable growth in 2000s.

- China has consistently diverted its rural resources towards more productive activities in order to satisfy its industrialization ambitions. From 1978, it gradually privatized agriculture and opened it up to foreign investment and technology.
- The collapse of the USSR completely changed the dynamics at play. After an initial shock from the disintegration, Russia witnessed a significant natural resource-driven growth rather than chasing highly productive activities.
- Economic liberalization introduced in India post the 1991 reforms played their critical role in uplifting the Indian economy. Governance shifted from tight control towards deregulation which gave the industrial sector a lot of room to grow.
- The apartheid in South Africa had ended with the release of Nelson Mandela in 1990. This opened the South African economy to the world economy.
- Brazil addressed its prolonged macroeconomic weakness from 1999-2003. The country today has a small group of world's leading firms and firms engaged in low skill work that employ 60 percent of the urban workforce.

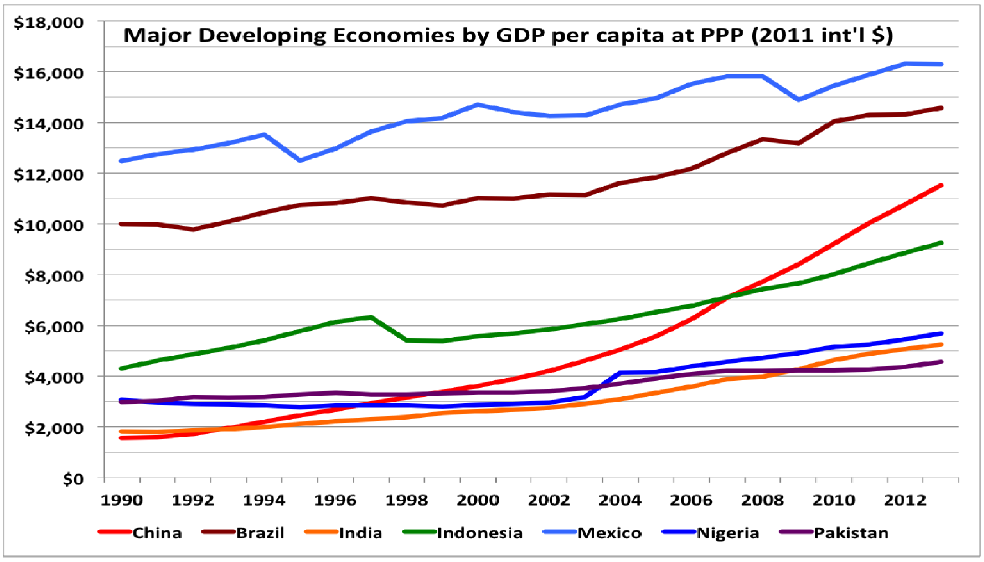

Figure 1 GDP (PPP, billion $), 1990-2012 Source: World Bank, 2013

2. BRICS - LOSING SHEEN?

We have all witnessed how in the past emerging-market booms were closely followed by bust, a period of recession. However, this time chances of these nations encountering a bust seem unlikely. Let us look at the reasons why. 0 2000 4000 6000 8000 10000 12000 China India Russia Brazil 7 Experts have for long pointed out that China's investment-led economy would soon no longer be able to drive its growth which explains China's shift towards a more balanced consumption based model. Its investment led growth has resulted in a lot of bad debt for the country but fortunately it seems the Government has the potential to absorb it and yet stimulate the economy if need be. This certainly makes a disaster less likely. This is a quality which few emerging countries possess. And with the rich economies still frail, there is less probability for them to adopt a tighter monetary policy. Even if they did, the BRIC nations are better equipped than before, with sufficient stashes of foreign reserves, flexible exchange rates and comparatively less debt and mostly in domestic currency. But the harsh reality is that the era of record-breaking growth seems over. China's investmentled model is losing its steam and its population is ageing fast and since it is prosperous owing to the wealth it has built, there is lesser room for improvement. About ten years ago China's per capita GDP (at PPP) was 8 percent of the US while now it is 18 percent. But China would keep pacing though at a much slower rate. China's slowing down would certainly impact the growth of the remaining emerging giants. For instance, Russia's speed was fuelled by a surge in the energy prices driven by Chinese growth. Brazil raced up due to the surge in commodities and domestic credit; its current combination of inflation and slow growth indicates that the underlying economic speed is lot lower than expectations. India' growth story is also pretty much the same, where the double-digit annual growth in GDP led investors to obfuscate its potential for catch-up with inevitability. Certainly India's growth rate can be enhanced but not without radical reforms and policies and definitely so if the magic of 2000s is to be recreated.

2.1. Many Milestones Ahead

So does this suggest that if all the emerging economies slow down it would mean that the emerging-market boom would no longer be able to fill the void which weak rich economies have created? This means that without a stronger recovery in the US, Japan and Europe, the world economies would grow at a much slower pace than todays' lackluster pace of 3 percent. The past decade was rather unusual. It was filled with China's boom which was disruptive not

just because of the country's size but also because of the deluge in exports and resulting buildup of foreign-exchange reserves. It can be safely deduced that in future a balanced growth from a broader array of economies would cause lesser ripples around the world. Economists believe that the BRICS, who were hitherto on a double digit growth spree will need to revisit their strategies, considering the shale-gas recovery in the US which is expected to be a 8 turnaround for the superpower. The leaders of the BRICS now to need to pull their strings to propel the growth. So far, out of the BRICS, China has been the most committed towards reforms and growth. India has demographic favorable factors but both India and Brazil need to ignite their reformist zeal. Another remarkable change uprising is that in the economic mood. Earlier Washington preached economic liberalization and democracy to the emerging nations. But all this while China grew while Washington crunched and the Eurozone was caught up in a perennial rough patch. Thus their ideologies have been challenged.

3. GOLDEN ERA

Before studying the milestones the BRIC nations achieved in the past decades, an important insight drawn from this research was that these nations started from a very low ebb. They had large amounts of unused labor, resources, low-cost structures owing to lesser regulations back then and favorable demographics. Nevertheless the credit cannot be taken away about how remarkably these nations have advanced from such a low base point.

3.1. BRICS Accomplishments

Back in 1990, the BRICS together accounted for less than one-third of the world GDP on the basis of the purchasing power. However, from 2003 to 2012 this share grew rapidly by more than a basis point each year.

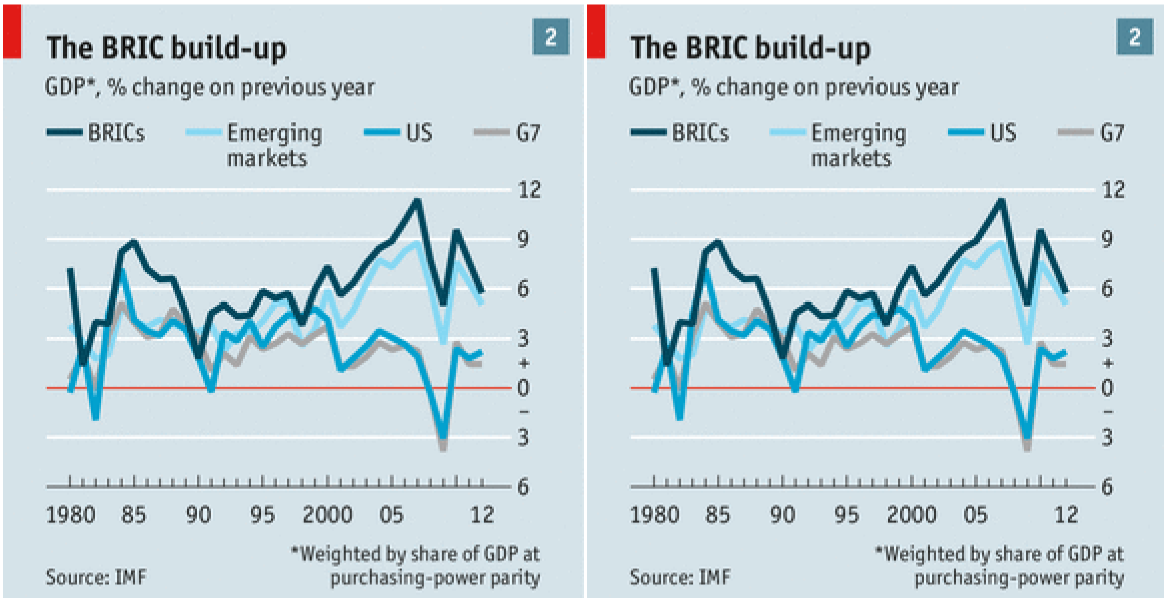

Figure 2 BRICS Market share of World GDP

This remarkable growth from 2003 to 2012 was unprecedented and experts say that chances are low that it might be witnessed again. From 1960 to 1990s only about 30 percent of the developing countries could enhance their per capita output faster than the US did. Till the 1990s this catching-up was lackadaisical but thereafter it accelerated beyond anyone had expected. Now 73 percent of developing countries managed to outperform America, which could be partly attributed to America's own sluggish growth following the sub-prime crisis.

Of these 73 percent developing countries the most remarkable growth was displayed by the BRIC nations. Although these four grew at different pace and for different reasons, their size market them out as special. It was then forecasted that these economies would go on to become front-rank economies and considering the past decade it can be rightly said so.

Talking about the accomplishments of BRICS without mentioning the crucial contribution made by China would be worthless. China had been the major driver of the BRICS. It was believed that without China BRICS would be BRI which was nothing but a soft bland cheese. In the early 1990s and 2000s, the richer economies stated becoming debt ridden which automatically initiated way for the inception of the golden era for the BRIC nations (as South Africa was added only in 2011). Outsourcing to low- cost merging nations and rising export demand were major factors in expediting the growth phase of these nations. The impressive growth of the BRIC nations marked several changes in the world economy, some of them have been wrenching. For instance labor and manufacturing cost dropped while commodity prices increased. Owing to the large population size a more accessible and cheaper -4 -2 0 2 4 6 8 10 12 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 BRICS US Source: IMF 10 pool of labor was created that gradually led to wage stagnation which ensued rising income disparity in rich economies.

Table 1 Economic & Social Indicators

	2011 GDP (PPP)/ capita	**GDP/capita growth %, p.a. 2001-2010 PPP**	**Human Development Index 2000-2011**
BRAZIL	11,719	2.4	5
CHINA	8,466	9	10
INDIA	3,652	5.9	9
RUSSIA	21,248	4.6	8
SOUTH AFRICA	11,035	2.1	0

Source: Crisil Research, eDatabase Table 1 shows how BRICS varied among themselves

No doubt the dynamics of the world economy have changed as BRICS evolved and grew but the era of rapid tumultuous growth seems to have ended. These economies would grow but a more subtly rate. As a result, their progress would no longer shake the world as they once did.

4. ARE BRICS NATIONS STILL THE GROWTH DRIVER?

As mentioned numerous times in the research report, BRICS no longer are growing at the same pace as they once did in 2000s. Their year-on-year growth has been declining and fallen to below a percentage point much in line with the sluggish growth rates of the BRICS. The IMF forecasted that China would grow by 7.8% in 2013, India by 5.6% and Russia and Brazil by 2.5%. Evidently this implies, the BRICS are contributing much less to the world economy. Refer Fig-4

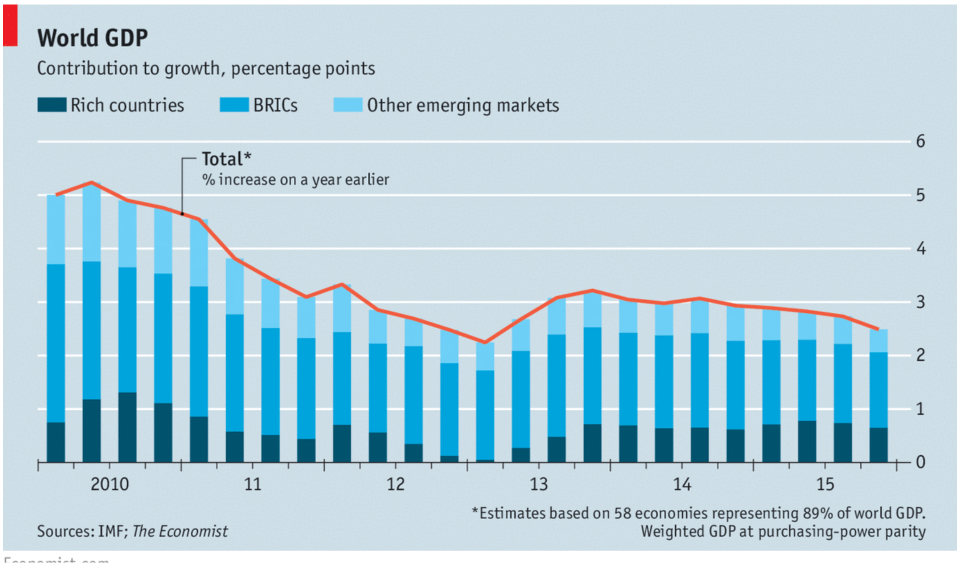

Figure 3 World GDP Source: Crisil Research, eDatabase 11

4.1. Replacement of BRICS as Growth Drivers?

Taking a careful view around, it seems other emerging nations have displayed an impressive growth potential. Goldman Sachs lays down a list of eleven such nations and calls them ‘N11’. These include nations like Bangladesh, Indonesia, Mexico and Turkey. However, there is no reason to believe that that N11 would be able to replace BRICS and become the growth drivers due to the following factors:

Size: These economies are smaller in size. Together they have a population of over 1.2billion. This is much less than half of BRICS population.

Lesser room for growth: The average per capita output of N11 is already about 15 percent of the US. When the BRICS bean their journey, their per capita output was about half of this. As a result they had tremendous room to grow.

Whatever progress these nations make shall not create the same magic which the BRIC nations created in the 2000s. That period was phenomenal and unprecedented and certainly irreplaceable. The world as a whole has little catch-up potential as there are fewer people now earning little.

5. CONSTRUCTIVE OR DESTRUCTIVE REPERCUSSIONS OF SLOW BRICS

The reality is some BRICS nations and other emerging economies would add to the world population of workers but some of this would be offset by the ageing population of countries like China. China’s working population started shrinking since 2011-12. India, though has more favorable demographics is struggling to generate employment and make the best of its labor pool. According to a recent survey, India did not get net new jobs between 2004-05 and 2009-10.

Besides, the way world economy was shook by the BRIC developments has made it only more immune to such changes in the future. Countries now shall be better prepared to react to such changes. Markets in the past have responded to high commodity prices and demand. Households are saving more and the governments are developing new resources, like the shale gas discovery in North America.

Foreign reserves of the BRICS have diminished along with current account imbalances. In fact recent years have been years of outflows for these nations. Stagnancy in the BRICS would cause anxiety among its own residents whose lifestyle patterns have changed the way BRICS emerged strongly in the 2000s. Their appetites have grown. However, in China this problem may be a little less severe as it is anyways transitioning from an investment led model to a consumption based model. But for the rest of the BRICS nation this remains a concern.

Most importantly, sluggish growth is a cause of worry for the investors. The Central Banks need to play their cards right if they wish to prevent outright contraction. The brighter side may be that globally slow growth could bring together focus leaders and enhance cooperation among nations and bring focus to global trade.

However, this too is accompanied by a downside. The richer economies have witnessed the power of the BRICS and may want to maintain their export competitiveness. Any kind of trade cooperation lapses could result in fractionalization of global economy. Besides slow growth in the tremendous BRICS may lead to strains in their relationships.

6. WHY WE CAN'T LOOK BRICS AS A WHOLE

It is not hard to find a common pattern among the BRICS nations which led to the belief that they were the next engine of the world economy. Each country have/had an income level which was still a fraction of incomes in western nations. Coupled with this, they had certain 'assets' which were still yet to be harnessed. Liberal economic policies led to the opening of respective economies which led to free flow of capital, technology and culture.

I would term their growth not spectacular but quite natural. If you have an income level which is abysmally low, the only way you can go is up (given the stable and favorable government policies). These countries used their unharnessed 'assets' to achieve 'spectacular' growth. In case of Brazil, South Africa and Russia it has been vast and untapped fields of Metal, Minerals, Natural gas and Oil. In case of India and China, it has been mainly skilled and, cheap labor working hard in cities like Bengaluru and Guangzhou providing manufactured products and services to the world. Everything was working more than fine and everyone was happy.

But human nature is essentially overly optimistic which many a times may lead to a myopic view. Exactly the same thing was happening in each country, blended in some local, peculiar form but united by failure of government and in larger terms society as a whole.

I strongly believe some of the participants will continue to grow, while others have strong risk of failure. To have a better understanding we need to analyze each country on standalone basis:

China: The Hidden Dragon

Among BRICS, Chinese economy has been the most robust and strongest over the years. In the process it has pulled millions out of poverty which is really commendable. This growth has largely been based on exports to the foreign markets and an investment spree.

Over the same period, Chinese economy has broken the psychological level of $4000 per capita income. Chinese economy is more than $9 trillion today. It was a different ball game when it was under $2 trillion. Growing 10% earlier meant adding $200 billion to GDP. Now it means adding more than $900 billion every year. Theory of Big number is looming over China and it will become tremendously difficult for it to grow even at late single digit number. China needs to accept this order and make adjustments accordingly.

In addition to large base, so much reliance on exports and investments has made Chinese economy unbalanced and unsustainable. Owing to erosion of Chinese cost competitiveness, exports will become uncompetitive and infrastructure projects risk becoming nonperforming assets for banks. China has the risk of falling into a debt trap as Japan, if it doesn't control its shadowy banking practices. It has been estimated the malicious banking practices are big in China, which may pose a threat to the banking system and economy as a whole in near future, if unchecked. To make the transition smoother, China needs to shift its focus from export market and investment to domestic consumption.

For good this has been happening. In a bid to curb risks associated with excessive lending, monetary authorities are expected to follow tightening of monetary policy. In recent times, there were encouraging signs from Chinese Leadership that they are committed to bring in more reforms to control excessive investments and encourage private consumption. Effects of these initiatives are yet to be seen. Based on median projection by IMF, World Bank and EIU, China will clock near to 6.5% in medium term and this growth will largely be driven by private consumption which is largely commendable. China has consistently been the growth driver of the world and would continue to do so.

India: The Crouching Tiger

It has been taken as a gospel truth that India is going to be world's fastest growing economy in next decade. 'Demographic Dividends' idea had long back trumped 'Malthusians Theory of Overpopulation'. If one looks at the fundamentals, Indian economy does have a chance of becoming the world's fastest growing economy. Its per capita income is nearly one-fourth that of China's and median age is nearly 26.

But due to a number of factors this potential has a risk of drifting into oblivion. No country is as varied as India, so it has to accommodate multi pluralistic aspirations also. Sometimes democracy seems to be the biggest impediment in India's march to growth.

India is spending too much on welfare and too little on infrastructure. This has resulted in supply side constraints coupled with high demand leading to high inflation over the years. It is apt to say that inflation is the biggest challenge India faces over the medium term horizon.

On monetary side, recent focus of central bank on inflation as a core of policy making has been a welcome move. On fiscal front, much needs to be done. India needs to curb state largesse and invest in long term infrastructure like ports, highways, power plants etc. It would have to create conditions which would encourage millions of rural households to leave unproductive farm land and work in productive cities. Additionally, India needs sweeping reforms in pension, banking, defense, retail, Insurance etc.

My take on India is largely positive. Based on the mean forecast of IMF, World Bank, OECD and EIU, India is poised to grow at 6-7% over the course of next 5 years.

Brazil: Welfare State which can't be afforded

There have been few economies which are so hyped as Brazil. Commodity boom in last decade made us believe that Brazil is the next big story. If only that was the case. Brazil is one of the biggest producers of many natural resources like Iron Ore, Coffee, Rubber etc. and has tremendous potential in Oil and Gas. When world was scrambling for natural resources in last decade, Brazil was one of the few countries which had the last laugh.

But rather than investing this capital in productive projects, Brazil resorted to being a welfare state which it can't afford. This has been a problem in many of the developing countries. Ideally a country should first use prudent fiscal and monetary policies for a

developing economy and then pursue welfare program. In Brazil, things are the other way round.

Brazilian economy suffers from high cost of labor and transport which are detrimental to economic growth. Total investment as part of GDP is abysmally low at 19 for Brazil vis-à-vis China's 50 and India's 30 percent. This has resulted in awful inefficiencies and shortfall in infrastructure and manufacturing. Constraints like these stifle supply side which cannot keep up with demand and price rises. Hyperinflation has been the biggest problem of Brazil over the years and in all probability will continue to be a problem in foreseeable future.

Tax burden is 38% of GDP in Brazil which is one of the highest in major emerging economies. Industry is not getting efficient as it is not investing in new technologies and training. Brazil needs to increase its manufacturing share in GDP, which currently stands at 14%. Due to QE tapering and large current account deficit, Brazilian Real will come under pressure in near term. As an investor, I would have given Brazil a miss, given large risk associated with return.

Russia: Oligarchy and Corruption

As a participant in BRICS, Russia seems to be an interesting choice. Per Capita Income in Russia has increased manifold in past 2 decades to around $14000 which is way above other fellow BRICS nations. Law of large number which has been aptly applied to China holds good for Russia as well. It is very difficult to clock high growth rate with such a base unless there are some disruptive events and policies.

Sadly, Russia has done little in bringing such constructive disruption. Though it is one of the biggest exporters of minerals and energy resources, Russia doesn't seem to be doing enough in reducing its dependence on it. In contrast, role of exports of these resources are humongous in Russian economy, thereby linking its fortune to global commodity pricing. At the heart of this dependence are state owned companies like Gazprom and Rosneft which are epitome of inefficiency and corruption. According to some estimates, State's share in economy has risen to 50% of GDP. Dynamic and entrepreneurial firms are required in a nations rise which is absent in Russia. As a result it is difficult to find competitive Russian firms on the global stage.

In addition, banking system is absent in Russia vis-à-vis other emerging economies. Missing financial sector coupled with coercive and corrupt governance has demoted Russia to one of the lowly ranked business friendly nation. Due to paucity of business opportunities and low investor confidence, Russia is a unique case which has seen massive outflow of FDI during recent years, resulting in net negative FDI. Due to decreasing population, Russia will continue to struggle with worst aging problem in emerging world. I strongly believe Russia will not be able clock decent growth in coming years. My estimate in the best scenario is near to 2.5 – 3%.

South Africa: Legacy of Apartheid

South Africa is often looked upon as a leader among the countries in the 'Dark Continent'. It has the biggest economy and one of the highest per capita incomes in Africa. Over the years it has been one of the largest exporters of many of the world's natural and precious resources.

Problem with South Africa has been more to do with Socio-political than economic. Though the era after apartheid has been marked by a condition where debt and inflation has been under control, legacy of the apartheid era is still prevalent over the present decade.

Gini Coefficient, which measures the income distribution of a nation's residents, is one of the highest for African nation at 0.7 representing high inequality. In addition, high

unemployment among majority blacks has pushed unemployment rate to a disturbing figure of 25 percent of total labor.

On the whole, the government has failed to create conditions for a dynamic competition. Strong unions are part of ruling ANC leading to wages that are rising faster than inflation and productivity. State protégé leads to strikes which often cripple the domestic production.

Domestic saving is huge to the tune of $750 billion but not much is being invested in the country. Over the short term, South African Rand and FTSE/JSE exchange is going to come under pressure due to tapering by US Fed Reserve and chronic current account deficit.

South Africa needs to bring competition in many of its industries which will ultimately increase productivity and check unemployment. It needs to do more in bringing equality in income levels.

South Africa comes under middle income bracket with income level hovering around USD 9000. With stable environment, South Africa may clock 4-5% in time period of next 5 years, which is good enough.

7. CONCLUSION

The research clearly indicates that even though the BRICS would continue to grow, the pace with which it advanced in 2000s would be missing. Their sluggish growth would be incapable of making any significant impact on the world economy as it did earlier. It can be rightly said that the BRICS performance in that decade was unprecedented that was partly because of the own slowdown in the rich economies.

Meanwhile certain other emerging economies are gradually rising. They have been termed as 'N11' by Goldman Sachs. These countries have the potential to show an impressive growth but seem not of the level that BRICS had displayed once.

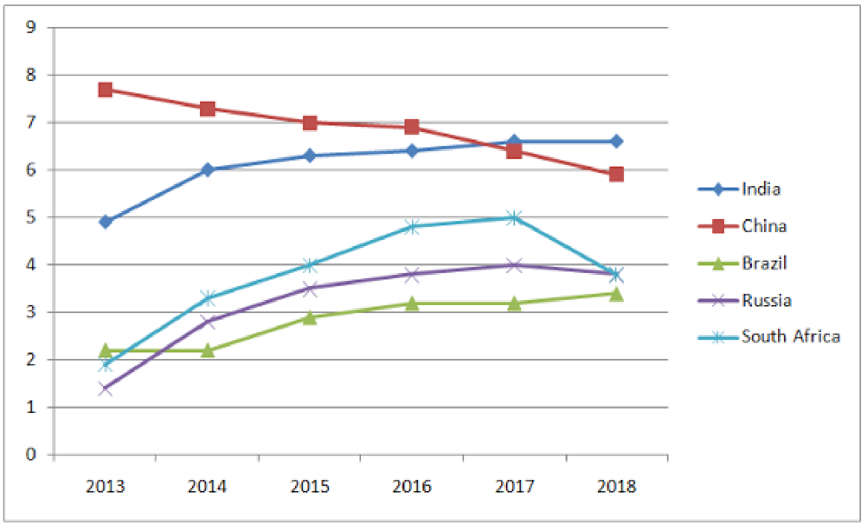

Figure 1 : Projected Growth Rate of BRICS (Source: EIU)

Figure 4

Clearly, we can't look at BRICS as a single unit but as compositions of different nations which will follow different growth path in coming days. Based on the facts and ground realities in various countries, my best bet would be India, China and South Africa. I may not bet much on Brazil and Russia due to the risk mentioned in their respective analysis. They may be replaced by other countries say Nigeria or Mexico in the future.

Having said this, if there happens to be some event, internal or external, things may change greatly. As for example, China going in war/armed conflict with Japan over disputed islands or India getting a stable, clean majority government is going to have vast ramification over the political-economic environment in medium term in respective economies.

Additionally, BRICS' nations have a potential danger of falling into political chaos if they fail to check unrest among their working class. Political and policy uncertainty dent business sentiment and activities. Overall these countries need to bring labor market reforms, check their unsustainable welfare policies and build infrastructure.

A potential game changer could be China and Russia investing their huge foreign reserves in infrastructure deficient economies of India, South Africa and Brazil. A BRICS bank to facilitate such a transfer would be a welcome move. Most important these countries need to invest more on education, healthcare, skill development and transports for bringing veritable changes. With prudent policies and stable environment, BRICS may continue to be the growth driver of the world, though on a smaller scale.

REFERENCES

[1] Gauteng Province, Quarterly Bulletin, Republic of South Africa

[2] CrisilResearch, https://www.crisilresearch.com/CuttingEdge/economy.jspx?serviceId=44#

[3] Reisen Helmut, Economic Policy and Social Affair in BRICS

[4] The Economist

[5] CNN, http://edition.cnn.com/2013/06/03/business/opinion-pereira-brazil-bric-economies/

[6] http://www.worldeconomics.com/papers/Global%20Growth%20Monitor_7c66ffca-ff86-4e4c-• 979d-7c5d7a22ef21.paper

[7] Trading Economics, http://www.tradingeconomics.com/india/gdp•

[8] BRICS, *The BRICS Report 2012*. India: Oxford University Press, 2012.

[9] Akshay Kumar, GDP the Backbone of Indian Economy: An Overview through Ages. *International Journal of Management*, 7(5), 2016, pp. 228–231.